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Is Our Culture in Decline?

by Tyler Cowen

The "culture wars" and recent debates over the National Endowment for the Arts reflect deep disagreements about the health of contemporary culture. The current wave of cultural pessimism, expressed in various forms by both the left and the right, suggests that our culture is experiencing corruption and decline. The left concludes that government support for the arts is needed, while the right often favors government support for traditional culture. But a review of the evidence offers strong reasons for cultural optimism and confidence that a modern commercial society will stimulate artistic creativity and diversity.

The music of Bach, Mozart, Haydn, and Beethoven is more accessible to today's listeners than it was to the listeners of the 18th or 19th centuries. Modern concertgoers can sample an unparalleled range of musical periods, instruments, and styles. Even relatively obscure composers have their material stocked in music superstores, which are common in both American cities and suburbs. A small Tower Records outlet will offer at least 10,000 classical music titles, and the largest Tower branch in Manhattan has over 22,000 titles. The Naxos label markets excellent performances of the classics for as little as $5.99 for 70 minutes of music. Music of all kinds—both old and new—is available in great profusion.

Movies, including many silents, can be rented on videocassette very cheaply, or on laser disks for those who want higher quality picture and sound. Modern video stores, run on a private for-profit basis, are libraries full of classic works.

New and definitive editions of many literary works, or better translations, are published regularly. The Bible and Plato, two favorites of many cultural pessimists, continue to be reissued in new editions, while the classics are available in cheap paperback. Television, video stores, and bookstores give modern fans better access to the works of Shakespeare than the Elizabethans had.

Literacy and reading are two areas where the modern world comes in for especially harsh criticism, but even here the trends are largely positive. Between 1970 and 1990 the measured world literacy rate for adults rose from 61.5 to 73.5 percent. The industrialized countries increased their literacy rate from 93.8 to 96.7 percent over that period. American illiteracy was far worse 100 years ago or even in the middle of this century. Consistent with those trends, the average American buys more than twice as many books today as in 1947. The number of bookstores has jumped nearly 10-fold, and their

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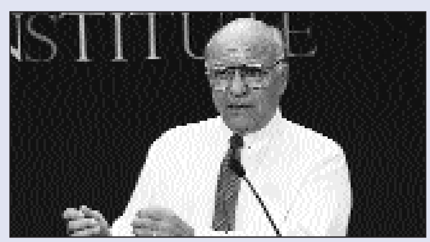
Tyler Cowen is a professor of economics at George Mason University and the author of In Praise of Commercial Culture *(Harvard University Press, 1998).*

Speaker of the House Newt Gingrich leaves the Cato Institute after keynoting a Cato Policy Forum, "Should We Lower the Capital Gains Tax?" on July 16. Other speakers included Congressional Budget Office director June O'Neill and Joseph Minarik of the Office of Management and Budget.

In This Issue



Yeutter at trade conference, p. 9

Once More with Passion: Save Social Security!

As of early August, Congress had yet to approve a budget resolution for the fiscal year beginning in October. The major disagreement, primarily between House and Senate Republicans, was what to do with the growing surplus in the unified budget, now projected to be about $1.55 trillion over the next 10 years.

At that time, House Republicans seemed committed to approving some combination of tax cuts that would reduce revenues by about $700 billion over that period. Although the budget resolution itself will not approve specific tax cuts, those most favored by the Republican leadership include reducing the marriage penalty, the capital gains tax rate, and the tax on Social Security benefits and eliminating the estate tax. There is no obvious coherence in this proposed combination of tax cuts other than that they would especially benefit the Republicans' middle- to upper-income constituency. Any remaining surplus, which would reduce the explicit federal debt, was described by House Majority Leader Dick Armey as "a big, big step in the direction of saving Social Security."

In late July the Senate Republican leadership endorsed a proposal developed by Senate Budget Committee chairman Pete Domenici and Sen. Phil Gramm to commit almost all of the projected surplus in the unified budget to purchase a portfolio of investment-grade short-term corporate debt instruments, a portfolio that would be selected and managed by the Federal Reserve Bank of New York. This proposal would have the political effect of building a temporary wall against tax cuts until Congress approves the necessary reform of Social Security. In a strident editorial the *Wall Street Journal* described this proposal as "Domenici-Gramm Socialism," and the Senate Republican leadership backed away from the proposal by the end of the day.

Neither of these proposals, of course, directly addresses the future of Social Security. The House Republican proposal, however, would make it more difficult to make the necessary reform of Social Security—requiring a larger reduction of future Social Security benefits or other government spending, larger payroll or other federal taxes on the working generation, or a larger federal debt burden on future generations. The House Republicans' proposal, in addition, may be politically dumb—making them vulnerable, once again, to a charge that they are sacrificing the future of Social Security on the altar of current tax cuts. The Senate proposal, in contrast, buys a year or two to consider the necessary reform of Social Security and, in the meantime, develops a small fund that would later be distributed to private retirement accounts.

The case for the House Republican budget proposal, I suggest, is weakened by the following considerations:

1. The proposed tax cuts, as in the 1997 budget deal, are a mishmash of junk tax cuts—not a major tax reform that would at least provide interesting competition to Social Security reform.
2. Federal tax cuts, by themselves, reallocate the burden of taxation among people and over time but do *not* reduce the size of the federal government. As a founder of the National Tax Limitation Committee, I have supported tax cuts in states with a balanced-budget rule, because the reduction in tax revenues forces a corresponding reduction in state spending. With no constitutional balanced-budget rule at the federal level, however, a reduction in federal tax revenues has not generally led to a corresponding reduction in federal spending. Republican fiscal policy would be much more coherent if its makers recognized that the dominant political issue of the day is, "It's the size of government, stupid!" This does not rule out making an issue of tax policy, but it suggests that a major tax reform should be either revenue neutral or combined with a corresponding reduction in federal spending.
3. The time is right for a major reform of Social Security. The earlier the problems of Social Security are resolved, the better. The potential transition to a system of pre-funded private retirement accounts is the most important opportunity to reduce the size of the federal government in many decades.

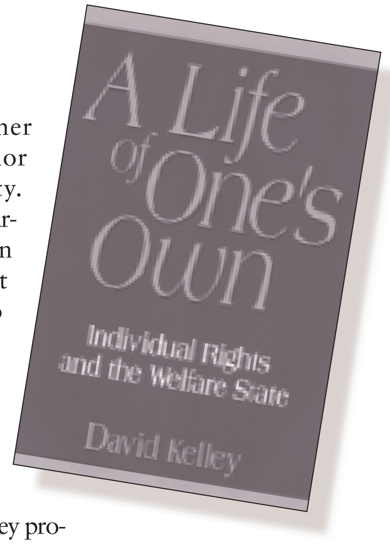
"The potential transition to a system of pre-funded private retirement accounts is the most important opportunity to reduce the size of the federal government in many decades."

President Clinton is unusually well informed about this issue, is committed to a major reform by the end of his term, and seems to favor some amount of money in some type of private retirement account. The fact that Clinton favors a policy, of course, does not make it right. Nor does it make it wrong. In this case, I suggest that President Clinton is right. Lock up the projected budget surplus until this issue is resolved. Save Social Security first. Seize the day!

—William A. Niskanen

Rep. Ed Royce: "A moral compass"

Kelley Invalidates "Welfare Rights"



David Kelley subjects the institutions of the contemporary welfare state to sustained criticism in a new book from the Cato Institute, *A Life of One's Own: Individual Rights and the Welfare State*. The book is a strong refutation of the flawed concept of "welfare rights." It combines empirical evidence of the welfare state's effects on behavior, historical research on the origins of the welfare state (and on what it displaced), and philosophical clarification of such core ideas as freedom and rights. After a careful examination of the various arguments made on behalf of welfare rights, Kelley concludes that "the concept of welfare rights is invalid."

Kelley distinguishes between statutory rights, constitutional rights, and human rights. Although current law creates statutory rights to welfare benefits, Kelley demonstrates that there are neither constitutional nor human rights to welfare. As he notes, "Just as the idea of a constitutional right to welfare is at odds with the Founders' legal conception of the function of government, so the idea of a basic human right to welfare is at odds with the Founders' *philosophical* conception of the rights of the individual. Welfare rights are radically different from, and incompatible with, the classical rights to life, liberty, and property."

Kelley traces the emergence of the welfare state to the combination of two factors: on the one hand, "real problems, of which the two most important were continuing poverty among those left behind by economic progress and the new forms of economic risk that arose as the economic fortunes of individuals became bound up with national and international markets" under industrial capitalism and, on the other hand, "intellectual and cultural trends [that] were increasingly hostile to individualism and capitalism." The first factors were being addressed "by private, voluntary organizations well before government programs were conceived and enacted" and were rapidly being ameliorated. Kelley directly addresses the intellectual challenge to individualism and capitalism.

A Life of One's Own has drawn much praise. Alex Kozinski, Judge of the U.S. Ninth Circuit, says, "*A Life of One's Own* is a provocative, often devastating, critique of the central assumptions of the welfare state. Kelley reminds us that our country was founded on individual freedom and responsibility, not a coercive obligation to provide for others. At a time when many people are coming to the realization that our welfare system needs to be overhauled, it is increasingly important to question the system's central premises. Kelley accepts that challenge, exposing a system based on faulty assumptions and lacking incentives for personal responsibility." Randy Barnett of the Boston University School of Law calls the book "a brilliant mix of theory and practice, a book you will share with your friends." Philosopher Douglas Rasmussen of St. John's University says, "Kelley shows 'welfare' rights to be both an ethical and an economic sham. Kelley argues that individualism is at odds with neither morality nor community. This is a clearly written book that appeals to common sense." And Rep. Ed Royce (R-Calif.) writes, "David Kelley provides us with a moral compass that points the way out of the current welfare system. *A Life of One's Own* reaffirms and sets on solid philosophical ground the traditional American principles of personal responsibility and individual liberty with human dignity for all. I found it both convincing and inspiring." The book has its own Web site (www.individualrights.org) and is being promoted through an extensive campaign of print advertising.

Kelley, a former professor of philosophy and the author of a widely used college textbook on logic, *The Art of Reasoning*, as well as other works in philosophy, and has been a frequent contributor to *Barron's*, *Harper's*, other popular magazines, and academic journals. He is currently executive director of the Institute for Objectivist Studies.

A Life of One's Own can be purchased for $9.95 (paper) or $18.95 (cloth) by calling 1-800-767-1241. ■

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Dick Morris backs McCain

The U.S. in Kosovo, Colombia–and in Court

✦**June 1:** The Department of Defense is currently designing or building three new tactical fighter aircraft at a total projected cost of more than $300 billion. At a Policy Forum on **"Tactical Fighters: Too Many Aircraft, Too Little Money,"** retired Vice Adm. Robert Dunn of the U.S. Navy and retired Maj. Gen. Charles D. Link of the Air Force both implied that funds for any one tactical aircraft program cannot be cut at the expense of the others. Lane Pierrot of the Congressional Budget Office, Williamson Murray of the Smithsonian Institution, and David Ruppe of *Defense Week* questioned the need for those new fighters.

✦**June 11–14:** Members of **Cato Club 200** gathered at the Lake Placid Lodge in New York for their second annual retreat. Speakers included publisher Steve Forbes, broadcaster John Stossel, and Iris Chang, author of *The Rape of Nanking*. Several Cato policy directors discussed their current projects with Cato's major supporters as well.

✦**June 17:** On May 11, 1998, India conducted five underground nuclear tests. Pakistan followed suit two weeks later. NATO condemned the tests, and the Clinton administration quickly imposed sanctions on India and Pakistan. Naresh Chandra, the Indian ambassador, defended his country's actions at a Policy Forum titled **"After the Tests: What's Next?"** arguing that India conducted its tests to demonstrate its defensive capabilities to the international community. Ted Galen Carpenter, Cato's vice president for defense and foreign policy studies, commented.

✦**June 8:** Author Tamar Jacoby discussed her book ***Someone Else's House: America's Unfinished Struggle for Integration*** at a Book Forum. In her book, Jacoby argues that Americans have given up Martin Luther King's dream of a racially integrated community and have, instead, settled for a tolerant coexistence. Columnist and talk-show host Armstrong Williams argued that racial preference programs have served to exacerbate racial tensions.

✦**June 23:** Do trade sanctions do damage to domestic business? Does the government have a constitutional right to restrict the exportation of goods, such as encryption and nuclear technology, which have both civilian and military uses? Those and other issues were discussed by panelists at an all-day conference on **"Collateral Damage: The Economic Cost of U.S. Foreign Policy."** The keynote speaker was Richard Cheney, CEO of Halliburton NUS Corp. and former secretary of defense. Other speakers included former U.S. trade representative Clayton Yeutter, Gary Hufbauer of the Council on Foreign Relations, and Carl Ellison of CyberCash.

✦**June 25:** David Rabban, professor of law at the University of Texas, discussed his book ***Free Speech in Its Forgotten Years*** at a Book Forum. Conventional wisdom has it that the defense of free speech began with the efforts of Oliver Wendell Holmes, Louis Brandeis, and the American Civil Liberties Union during World War I, but Rabban argued that classical liberals had been defending free speech since at least the Civil War. He further noted that the Progressive movement was hostile to free speech until its own rank and file began to be persecuted for opposing America's involvement in World War I. Robert Corn-Revere of Hogan & Hartson heartily endorsed Rabban's work.

✦**June 30:** In recent years the Federal Communications Commission has increased its efforts to shut down unlicensed, low-powered radio broadcasting stations. Regulators argue that microbroadcasters run the danger of causing anarchy on the airwaves. At a Policy Forum on **"Microbroadcasting and the War for the Airwaves,"** Jesse Walker of the Competitive Enterprise Institute, Scott Bullock of the Institute for Justice, and Pete triDish, a microbroadcaster, argued that microbroadcasting—or pirate broadcasting, as critics call it—gives voice to a diversity of viewpoints and fulfills the promise of the First Amendment.

✦**July 2–5:** A **Cato University Seminar** on economics and history was held in San Diego. Speakers included Russell Roberts of the John M. Olin School of Business at Washington University in St. Louis; Stephen Davies, professor of history at Manchester University; Timothy Lynch, associate director of Cato's Center for Constitutional Studies; and James K. Glassman, syndicated columnist for the *Washington Post*.

✦**July 9:** At **"Save the Kids? Or Grab the Money? What's Driving the Tobacco Wars?"** a Policy Forum, four speakers discussed the legitimacy of tobacco legislation and litigation. Sen. John Ashcroft (R-Mo.) contended that the defeated McCain bill would have constituted a massive growth in government and would have unfairly taxed the American people. Political consultant Dick Morris argued that the McCain bill would have cut teen smoking. John P. Coale argued that the June 1997 settlement, which he helped negotiate, was fair to the tobacco industry. Cato Institute senior fellow in constitutional studies Robert A. Levy argued that the federal government has no constitutional right or reason to interfere with the tobacco industry at all and that the way to curb teen smoking is to crack down on stores that sell to minors.

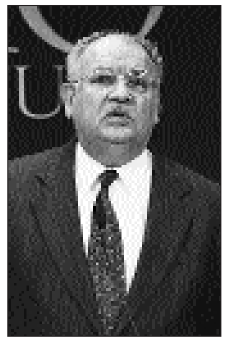
✦**July 15:** Francisco Thoumi, author of *Political Economy and Illegal Drugs in Colombia*, and Sidney Weintraub of the Americas Program at the Center for Strategic and International Studies discussed **"The Drug War's Impact on Latin American Societies"** at a Policy Forum. The speakers explained that Washington's hemispheric war on drugs has been a failure because it has caused tremendous social and economic damage in Latin America without diminishing drug production or trafficking. Thoumi described how the drug war undermines civil society in Colombia, and Weintraub called for an end to Washington's annual certification process.

✦**July 16:** At a Policy Forum on **"The Promise and Perils of the Proposed International Criminal Court"** four panelists discussed the proposed UN treaty establishing a permanent International Criminal Court. The court would prosecute persons charged with "the most serious crimes of concern to the international community." Stephen Rickard of Amnesty International and Morton Halperin of the Twentieth Century Fund argued that the ICC would be a serious deterrent to war crimes,

Political consultant Dick Morris, Cato senior fellow Robert Levy, and tobacco negotiator John Coale listen as Sen. John Ashcroft (R-Mo.) denounces proposed tobacco legislation.

CBO director June O'Neill discusses capital gains taxes.

Iris Chang, author of *The Rape of Nanking,* addresses Cato supporters at the annual Cato Club 200 retreat in Lake Placid, New York.



Above: Indian ambassador Naresh Chandra discusses nuclear testing at a Cato Policy Forum.

Murray Weidenbaum, former chairman of the Council of Economic Advisers, listens as Dan Griswold, associate director of Cato's Center for Trade Policy Studies, testifies before the Senate Finance Committee on the trade deficit.

crimes against humanity, and genocide. Attorney Lee Casey and former assistant secretary of state John Bolton argued that participating in the court is unconstitutional, that the court poses serious threats to national sovereignty, and that it would not have a strong effect on international crime.

✦**July 16:** Eight distinguished speakers met at a Cato Institute Policy Forum to address the question, **"Should We Lower the Capital Gains Tax?"** Speaker of the House Newt Gingrich gave the keynote address, arguing that lowering the tax would represent a serious boon to the economy. Stephen Entin of the Institute for Research on the Economics of Taxation; Kenneth Kies of Price Waterhouse; and June O'Neill, director of the Congressional Budget Office, looked at what effect a change in the capital gains tax would have on realizations and revenues. Mark Bloomfield of the American Council for Capital Formation, Iris Lav of the Center on Budget and Policy Priorities, and Joseph Minarik of the Office of Management and Budget discussed the optimal form of the capital gains tax. Lawrence Kudlow of American Skandia gave the luncheon speech, "America's New Investor Class."

✦**July 21:** Philosopher David Schmidtz of the University of Arizona discussed ***"Social Welfare and Individual Responsibility"*** at a Book Forum. The book, which he wrote with philosopher Robert E. Goodin of Australian National University, is a debate on the ethical merits of collective responsibility for welfare. Schmidtz noted that all Americans have experienced increasing prosperity since the beginning of this century. He also stated that self-help and mutual aid groups among the poor have been far more effective than governmental welfare programs. Schmidt's argument was critiqued from the left by Jamin B. Raskin of the American University and from the right by Adam Wolfson of the *Public Interest*.

✦**July 23:** NATO defense planners are now drawing up a list of options, including air strikes, for military intervention in Serbia's Kosovo province. Cato senior fellow Doug Bandow, Cato foreign policy analyst Gary Dempsey, and syndicated columnist Stefan Halper spoke about their recent trip to the region at a Policy Briefing on **"Kosovo: A View from the Ground."** Dempsey highlighted the negative effects of the Clinton administration's siding with the Serbian government. Halper said that the conflict needs to be contained and the only possibly helpful thing NATO might do would be to deploy troops along the Kosovo-Albania and Kosovo-Macedonia borders to stop the flow of arms to the embattled province. Bandow argued that there were no political pressure points that could be used by the United States to prevent what he believes is an inevitable conflict.

✦**July 23:** The Cato Institute held a City Seminar in Albuquerque on **"A New Deal for Social Security: Public Policy for the 21st Century."** Speakers included Gary Johnson, Republican governor of New Mexico; Edward H. Crane, president of the Cato Institute; former congressman Tim Penny (D-Minn.); and Michael Tanner, director of the Cato Institute Project on Social Security Privatization.

✦**July 28:** Journalist Paul Ciotti discussed his Cato Policy Analysis, **"Money and School Performance: Lessons from the Kansas City Desegregation Experiment,"** at a breakfast for education reformers.

✦**July 30:** At a Policy Forum titled **"Should the United States Adopt a Code of Conduct for Selling Arms?"** Gregory Suchan of the U.S. Department of State said that a unified code of conduct was unnecessary since the executive branch already has its own code. Stephen Rickard of Amnesty International USA contended that a code would reduce human rights abuses in nondemocratic and bellicose states. Joel Johnson of Aerospace Industries Association argued that a code was unnecessary, given internal restraint by the industry and present regulation. Lawrence Korb of the Brookings Institution contended that a code would enhance America's "moral authority" abroad. ■

Should We Lower the Capital Gains Tax?

On July 16, 1998, the Cato Institute held a Policy Forum, "Should We Lower the Capital Gains Tax?" Among the speakers were Newt Gingrich, Speaker of the House; Kenneth Kies, a partner in the Washington office of Price Waterhouse who was formally with the Joint Committee on Taxation; and Lawrence Kudlow, chief economist with American Skandia. Excerpts from their remarks follow.

Newt Gingrich: Central to the debate, not just for the United States, but for the future of the world, is the question, Does statism work or does free enterprise work? Everywhere on the planet the issue is the same. Human freedom is tied to private property rights, the rule of law, free enterprise, technological advance, and the idea that free people pursuing new ideas to create wealth is the most powerful way to raise the standard of living.

I was recently in a conversation with German and British parliamentarians. They got to talking about computers and how to make sure that poor people get them. I said that the real answer is economic growth. They stared at me like I'd lost my mind because that is such a non-European idea. I said that 99 percent of American homes have televisions and 97 percent have telephones—because our society is so much wealthier than it was 100 years ago. The answer to Dickens's *Bleak House* was economic growth and the encouragement of entrepreneurial innovation. This is a sophisticated model that no major political figure, with the singular exceptions of Jack Kemp and Ronald Reagan, has been able to explain. It's the center of what this debate is about. Frankly, if some of our friends on the left want to argue against economic growth, against technological change, against general prosperity, we should allow them to do so. But I believe that the average American actually gets the idea.

When we were sworn in in January 1995 the budgets for the next 11 years—1995 through 2005—were going to have a combined deficit of $3,140,000,000,000. The projection that came out of the Congressional Budget Office yesterday is that over the next 11 years, 1998 through 2008, the budget *surplus* will be $1,600,000,000,000. That is, over a 10-year period, a swing of $4 trillion.

That's real change. The elite media don't want to cover it. This is a different society. We're moving in a different direction. We've reestablished the work ethic instead of victimization. We've reestablished the right to entrepreneurship, which is Ronald Reagan's big domestic contribution. And we are moving toward a system that takes advantage of the information age and the world market.

It is in that context that I introduced my bill, which would create more economic growth. The Economic Growth Act of 1998 is effective as of the date introduced, June 24. It would cut the capital gains tax rate to 15 percent. Now I agree with Steve Moore and Alan Greenspan that the correct rate is zero if you want maximum economic growth. If you really wanted the most wealth created over the next 20 years, you would have a zero rate for the capital gains tax, which is a tax on job creation. But even 15 percent would be down from the current rate of 20 percent, which we reduced last year from 28 percent. The rate for those who are in the lower income tax bracket would go down from 10 percent to 7.5 percent. And of course this would be a simplified rate; we would eliminate the exception categories of real estate, depreciation recapture, collectibles, and gains from small business stocks. So we think this is a very powerful step in the right direction.

Our core message is very simple: Cutting the capital gains tax rate helps anyone who is preparing for retirement, starting a business, saving for college tuition, or planning to buy a house. The lower the capital gains tax rate, the better off society is.

We believe there's $11 trillion of locked-in capital. What we want to do is increase the velocity with which people move from investments that are less productive to investments that are more productive. We want to lower the risk of investing in the next 30 new ideas that are Microsoft or Merck or Pfizer or Intel, because that's the way you accelerate growth.

So, our challenge here is to liberate that money so it can move to better investments. Humans change their behavior, and there's no area in which it's easier to change your behavior than capital gains, because if the tax goes up you just don't sell. You see this very dramatically if you look at 1985–86 when there was a preemptive sale of assets to get ahead of the increase in capital gains taxes. People made sure they sold their capital prior to the tax going into effect in order to escape the higher tax rate, which then led to a dramatic drop in the total number of capital sales the year after the tax went into effect.

In 1978–79 we lowered the tax on capital gains, and a lot more people sold their capital and moved it to a better, more productive place. In 1981–82, even in the middle of a recession, people sold more of their capital because the rate went down. And in 1986–87 when the rate went up, we saw probably the largest recorded drop in capital sales ever. And all we're saying here is that when you lower the tax on selling capital, more people sell capital. And when you raise the tax, fewer people sell. And if you liberate capital and it moves to more productive investments, it has to increase economic growth.

When people sell capital, the sale represents unlocking money to go from a less productive investment to a more productive investment so that the general economy grows faster. Why do you have Microsoft producing Windows? Because somebody somewhere took a gamble that Bill Gates wasn't nuts when he dropped out of college. You know, lots of Europeans and Asians come to us and say, gee, how can we get our government to do that? The answer is you can't. We need to be much clearer about this. Bureaucracies don't make those kinds of gambles. And they certainly don't make them work.

In January 1997 the baseline estimate was that there would be $205 billion of net capital sales last year. The Congressional Budget Office then adjusted it for our tax bill to $256 billion, and then in January 1998 to $382 billion. The difference between $205 billion and $382 billion is fairly significant. I would argue that there were two big things going on: The first is that we were changing the nature of the American political economy. Reforming welfare, balancing the budget, saving Medicare without a FICA tax increase, having less regulation, having the initial securities litigation bill pass and the veto overridden, all those were sending pro-free-market pro-growth signals that were positive. Second, in 1995 we had begun pushing the capital gains tax cut. People were

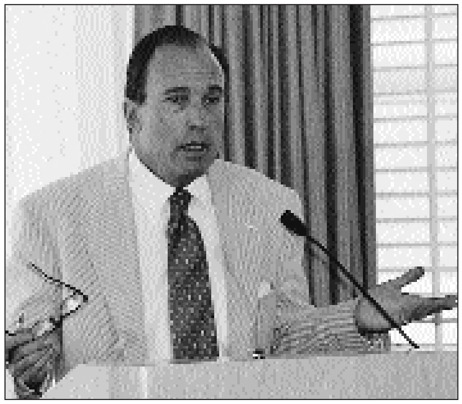
"I agree with Steve Moore and Alan Greenspan that the correct capital gains tax rate is zero if you want maximum economic growth."
—Newt Gingrich

beginning to realize their capital much more. But the key is that their behavior, which has changed fairly dramatically, has some very real revenue effects.

So, we want to reduce the maximum rate to 15 percent on our way to zero. We want to unlock $11 trillion of unrealized capital gains. We believe that unlocking relates directly to the tax rate. And we want to suggest that if you look at both the direct revenues and the indirect revenues, you have a healthier economy with a greater rate of innovation, with more entrepreneurs founding new companies, with a greater chance to lead the world market at the high end of the product value scale.

Lawrence Kudlow: One of the key influences on American politics in the next few years will be the emergence as a political force of investors with a desire to keep Washington on a tight free-market leash. One of the most interesting political questions in recent years was why the Democratic Congress was booted out of office in 1994, a year when the economy was growing at close to 4 percent in real terms. The rule of thumb for politics is that 3 percent or better economic growth tends to favor the incumbent.

I would argue that one of the reasons 1994 was so anomalous was that the financial markets behaved very poorly. Interest rates went from 5.75 to 8.25 percent, and 70 percent of the companies listed on the New York Stock Exchange lost at least 20 percent of their value, a kind of silent bear market. The tax rate increases of the prior year, the attempts to nationalize health care, and other Clinton cabinet trial balloons suggesting the emergence of a European-type industrial policy mobilized for the first time the full strength and power of what I call the new investor class. Those are people who have given up on the Social Security Administration's ability to generate retirement wealth and decided in the 1980s and 1990s to take matters into their own hands, to exercise personal responsibility, and generate their own investment portfolios. Polling data from Robert Teeter and Peter Hart suggest that 43 percent of all Americans own shares. A second poll done for the *Wall Street Journal* suggests that 51 percent of the population own at least $5,000



Lawrence Kudlow: "The investor class will keep the government on a short, free-market leash."

worth of shares. In rough terms, that's 120 million people, just a little bit less than the entire working population of 130 million.

That number doubled once in the 1980s and again in the 1990s. Forty-nine percent of the newest investors, those who bought shares in the 1990s, are women. Thirty-eight percent are nonprofessional, salaried workers. The typical new investor earns less than $75,000 a year. Some 65 million people have invested more than $5 trillion in mutual funds. Roughly 25 million people have invested slightly more than $1 trillion in 401(k)s. And another 32 million people have invested some $700 billion in tax-deferred variable annuities. Yes, there's overlap, but those are very impressive numbers. What's more, those people are long-term investors. They have survived the 1987 crash and the bear markets of 1990 and 1994, the nasty 10 percent corrections in July 1996 and October 1997, and they're hanging on through the Asian crisis. Eighty percent told Teeter-Hart that they would keep their investments if the market declined 20 percent or more.

Most important, those investors are people who have learned from their own success and their own perseverance that free markets, not governments, create wealth. They are more than willing to exercise their own judgement, their own responsibility, and what I think is a profound act of self-government. They'll accept the risk of short-term losses. But as long-term investors, they recognize that the basic trends of the American economy and the American stock market have really been upward since the country was founded and certainly over the last 100 years.

If you took the protracted period from 1970 to 1997, which includes a bear market from 1970 to 1982 and a bull market from 1982 to 1997, somebody who invested $5,000 a year every year in the top 25 percent of mutual funds would have been sitting on $1.4 million in 1997. That number, $5,000 a year, is a very interesting number because it is just slightly more than the average Social Security contribution, which is now about $3,600 a year.

This group of people, which I might characterize as "retail" rather than professional investors, is extremely well informed. They use stockbrokers and financial planners. They have accountants and lawyers. They watch CNBC, Bloomberg, and other news shows. They're operating on the Internet. They don't need or want the federal nanny state to assist them. And it really is a profound sense of self-government that we are watching in this revolutionary way of investing.

Again, using 1994 as the first example, this group of people does not want the heavy hand of government regulating, or taxing, or inflating, or directing our resources. They believe now, on the evidence of their own monthly accounting statements showing the rise in wealth, that private markets and private companies do it best. In 1994 there was a sense that the Republicans were offering an alternative policy of taxing and regulating, and the new investors voted for it. In 1996, I believe, the investor class was responsible for the shift in President Clinton's policies. In 1995 and 1996 he essentially ran for reelection as a moderate Republican. And I believe that this class of investors, which is even bigger than the American Association of Retired Persons and the teachers' unions, is going to be a profound force in American politics for years to come. The political party that tells the voters in unequivocal terms that it will use the growing budgetary surplus to reform and simplify the tax code; reduce the tax burden; and reform Social Security, health care, and education by allowing and permitting individuals to make the principal choices is going to prosper in the next decade or so. The investor class will keep the government on a short, free-market leash.

New numbers from the Congressional Budget Office suggest cumulative surpluses

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“Taxpayers with incomes below $200,000 were paying capital gains tax on illusory gains.” —*Kenneth Kies*

CAPITAL GAINS *Continued from page 7*

of $580 billion through the year 2003. That's up from $150 billion in a CBO report dated March 1998. But the long-term estimates of that office are still too cautious. It's still predicting a 2.1 percent real economic growth rate, and I expect it to be 3 percent or better.

The CBO basically says that the sources of unexpected income and the unexpectedly strong revenue flows are a mystery. The analysts say they just don't understand it and therefore don't know whether it will continue. Which makes sense in their case because they didn't expect it and would never have believed it in the first place. So if you don't buy it, you don't expect it to continue because it doesn't exist. I would offer a modest suggestion about the source of this income and revenue: it's called prosperity and wealth creation. In the past 15 years this nation has improved its economic policies. We've had lower tax rates, lower inflation rates, lower interest rates. Many industries have been deregulated. Our currency is strong. We're essentially the freest trading nation in the world. And of course, one of the wonderful stories in the last 15–16 years is the rise of American entrepreneurs, men and women who have reinvented the economy through the greatest surge in technological innovation since the last quarter of the 19th century.

The productivity-enhancing benefits of technological innovation and investment have been increasing growth, profits, output, jobs, and, yes, the tax revenues of the federal government. Revenues are rising, and tax bracket creep is rising. That's what a progressive system produces during periods of prosperity. Why the CBO refuses to acknowledge that is beyond me.

The bottom line is this: I would stick with my estimate of significantly higher budgetary surpluses in the next five years. If I'm right, we have a great opportunity to undertake the reforms necessary to make our healthy economy even healthier, to make our competitive economy even more competitive. The tax system ought to be streamlined. The rates should be brought down. We could live with one or two or three brackets, but we sure don't need five or six. And though I believe that lower tax rates will produce more tax revenues through improved economic growth rates, if in the short run revenue falls, we have plenty of resources to cover that. In a pinch, we could even cut spending.

Second, we need to reform Social Security. In particular, I think we need to improve savings rates among the middle and lower middle income classes by reducing payroll tax rates and then moving those investments into market vehicles. That is what the investor class wants to do. And I tell you, if this Republican Congress doesn't make that possible, the investor class stands ready to act, not only as investors, not only as taxpayers, but as voters. They are the invisible hand driving politics today, which is a good reason to be optimistic.

Kenneth Kies: The capital gains tax issue is as much about theology as it is about economics. People who feel strongly about what they think about capital gains, feel very strongly about it. And there are people on all sides of this debate. There are those who adamantly believe the rate should be zero. There are probably more who think the rate ought to be the same as the rate for all other income. Robert McIntyre of the Center on Budget and Policy Priorities designed a so-called flat income tax that actually had five marginal rates and was introduced by Rep. Richard Gephardt. McIntyre was candid about what it would do. He was asked if it would raise taxes on higher incomes. And he said yes, it would. But those people have been “the beneficiaries of life's lottery.” Apparently, anybody who makes money just hit the lottery, in his view.

One thing I learned at the Joint Committee on Taxation is that how you cut capital gains matters. For instance, from time to time, people have put forward proposals that would cut capital gains tax rates only for regular tax purposes and not for alternative minimum tax purposes. That is kind of a bad joke because most people would be pushed into the AMT. That problem is going to become even more pronounced over the next 10 years. We are going to witness a migration of taxpayers from the regular tax into the AMT because the AMT exemption amount of $45,000 is not indexed for inflation. That is a huge problem independent of what is done to capital gains because much of this growth is going to occur at relatively modest income levels, in the $50,000 to $75,000 and $75,000 to $100,000 expanded income classes.

I'll just give you one example to show you how important this problem is. By the year 2005, a family of four that has $58,300 of gross income in 1996 dollars, does not itemize their deductions, and has no preferences will be subject to the AMT. Those people will not get the joke.

Politically, I think the whole debate on capital gains is behind the times by about 15 years. Two big things have happened since 1980. The number of taxpayers who have a capital gain has dramatically risen. There are now, I believe, 20 million taxpayers who have a capital gain. Five million of them are in the 15 percent tax bracket. Five million of them are over age 65. That profile will only increase over time. The capital gain issue really has become a middle-class issue, but much of the rhetoric has not caught up with that fact.

Also a Congressional Budget Office report last May analyzed the benefits of indexing. It broke out capital gains in 1994 by expanded income class. And then it looked at each income class separately, at people who earned $0–$10,000, $10,000–$20,000, $20,000–$30,000, and so on. It recalculated in the aggregate what the gain or loss would have been had the basis been indexed for inflation, to eliminate inflationary gain. In every income class below $200,000, the net result was a capital loss. Taxpayers with incomes below $200,000 were paying, in the aggregate, capital gains tax on illusory gains.

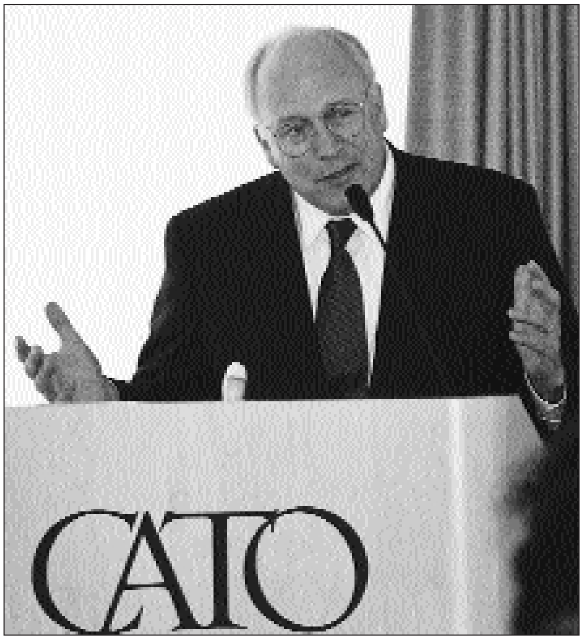
Only in the over-$200,000 income class was there real gain. The report suggested that higher income people are more likely to own growth stocks, are more likely to be risk takers. People in lower income classes are more likely to hold dividend-paying stocks because they use them for current income. That's particularly true of people over age 65. So those people are the ones most likely to find, when they actually sell a capital asset and pay a tax, that they are paying tax on gains that are only inflationary, not real economic gain.

I think that part of this debate is going to get more and more attention because it highlights how the current capital gains tax unfairly taxes people—especially retired and middle-class people—on apparent gains that often aren't real economic gains. ■

Trade sanctions and encryption rules explored at conference

Foreign Policy Can Damage Economy, Privacy

The arguments against an interventionist American foreign policy are many. One that is often forgotten is the fact that American foreign policy can be devastating to the economy. A proliferation of trade sanctions, security measures affecting the importation or exportation of technology and information, and restrictions on investment and financial practices all have potentially devastating effects on the U.S. economy. The Cato Institute held a day-long conference on "Collateral Damage: The Economic Cost of U.S. Foreign Policy" to discuss those issues.



Former secretary of defense Richard B. Cheney tells participants in Cato's conference "Collateral Damage: The Economic Cost of U.S. Foreign Policy" that trade and investment by U.S. companies are highly effective in promoting democracy and human rights abroad, while trade sanctions almost never work.

A major theme of the conference was that trade sanctions have serious effects on the business environment. Several speakers argued that trade sanctions make American businesses unreliable traders and partners, and consequently make American businesses unappealing trade partners. "People will not even approach in some cases an American producer because there's a fear that later on they might have to withdraw due to sanctions," said George Mason University law professor William H. Lash III.

Gary Hufbauer of the Council on Foreign Relation and the Institute for International Economics noted that, in addition to making it difficult for American companies to compete in the global marketplace, unilateral sanctions rarely—if ever—work. What's worse, several speakers noted that the use of trade sanctions has increased dramatically in recent years. Ian Butterfield of Westinghouse said, "Both parties have gone sanctions crazy," noting that over 50 percent of all trade sanctions put into place in this century have been instituted during the last six years.

Butterfield also spoke of the use of sanctions to prevent the export of technology to other nations. When the United States imposed sanctions to prevent American businesses from exporting nonmilitary nuclear technology to China, the sanctions had no effect on China's ability to acquire nuclear technology; instead, they barred U.S. companies from competing in Chinese energy markets. "No nuclear supplier nation followed the U.S. position," he said. "Consequently the U.S. has been denying vendors access to the Chinese market. French, Canadian, and Russian vendors have all been pushing their products."

Ken Bass, a partner in the law firm of Venable, Baetjer, Howard & Civiletti, discussed the dangers and difficulties of regulating cryptographic technology. Eric Hughes of Simple Access and Carl Ellison of CyberCash talked about digital cash and its implications for international trade. William C. Lane of Caterpillar, Inc., testified to the devastating effects of trade sanctions on his own business and told the story of his company's campaign against international trade regulations. Former secretary of agriculture and U.S. trade representative Clayton Yeutter said that by imposing trade regulations we are "shooting ourselves in the foot" and concluded that "as a nation we simply need to get our act together."

Papers from the conference will be published in a book titled *Economic Casualties* in early 1999. ■

Cato Calendar

Money in the New Millennium:
The Global Financial Architecture
16th Annual Monetary Conference
Washington • Cato Institute • October 22, 1998
Speakers include Lawrence H. Summers, William Poole, Jeffrey Sachs, Robert Mundell, Alan Reynolds, and Steve Hanke.

Liberty in the New Millennium
Philadelphia • The Rittenhouse • October 27, 1998
Speakers include Steve Hanke, Roger Pilon, and José Piñera.

A Life of One's Own: Individual Rights and the Welfare State
Washington • Cato Institute • November 10, 1998
Speakers include David Kelley.

Liberty in the New Millennium
New York • Waldorf Astoria • November 12, 1998
Speakers include Edward H. Crane.

Washington, D.C., vs. Silicon Valley
2nd Annual Conference on Technology and Society
Cosponsored with *Forbes ASAP*
San Jose • Fairmont Hotel • November 19–21, 1998
Speakers include Milton Friedman, Scott Cook, Eric Schmidt, T. J. Rodgers, William Melton, and Lawrence Ellison.

Eleventh Annual Benefactor Summit
Cabo San Lucas, Mexico • Melia Los Cabos
February 17–19, 1999

“The music of Bach, Mozart, Haydn, and Beethoven is more accessible to today’s listeners than it was to the listeners of the 18th or 19th centuries.”

CULTURE *Continued from page 1*

average size has increased dramatically. Book superstores are now commonplace.

Contrary to many claims, television and the Internet are not killing the book. The printed word offers unique modes of storytelling and analysis that other media have not replaced. Television and the Internet often complement reading and stimulate reader interest in books, instead of replacing them. Today a wide variety of talented writers is actively publishing and transcending traditional genre boundaries.

Art museums and art museum attendance are booming. Blockbuster art exhibitions travel the world and bring great paintings to increasing numbers of viewers. Earlier in this century, most Americans outside New York had few means of viewing high-quality art. Art publishing is doing well; even minor painters now have published catalogs full of high-quality color plates.

Live performance of the arts has flourished as well. From 1965 to 1990 America grew from having 58 symphony orchestras to having nearly 300, from 27 opera companies to more than 150, and from 22 nonprofit regional theaters to 500. Contemporary Western culture, especially in the United States, is flourishing.

Markets Spur Innovation

The market economy continually spurs new artistic innovations. Arguing the worth of particular contemporary creations is more difficult, given the tendencies for disagreement about the culture of the present day (Mozart was controversial in his time, but few dispute his merits today). Modern creators, however, have offered many deep and lasting creations, which are universal in their scope and significant in their import. Those creations delight and enrich large numbers of intelligent fans and influence subsequent artists. We can fully expect many modern and contemporary works to stand the test of time, just as earlier works have, even if we cannot identify exactly which ones.

The most impressive creations of contemporary culture include cinema, rock ‘n’ roll, Pop Art and Minimalism, modern dance, jazz, genre fiction, and the modern biography, to give but a few examples. The skylines of Manhattan, Chicago, and Hong Kong were financed and designed almost entirely by the private sector. The exact contents of a list of important contemporary creations will vary with taste, but our culture provides a wide variety of styles, aesthetics, and moods. An individual need not have a very particular set of preferences to love contemporary creations. The 20th century is not only the age of intellectual, atonal music, it is also the age of Buddy Holly and Steven Spielberg, both life-affirming and celebratory creators.

New musical genres continue to blossom. Our century has seen the development of blues, soul, rhythm and blues, jazz, ragtime, swing, rock, country and western, rap, and bluegrass, as well as more recent forms of electronic music. Some of the most significant modern artists are still around, playing and recording for our enjoyment. We can hear Bob Dylan and the Rolling Stones in concert, still in good form, even if not at their youthful peak.

Film is the art of the 20th century, par excellence. It combines drama, music, and high technology to entertain and inspire large audiences. Moviegoers all around the world want to see American films. Some movie buffs complain that “they don’t make ‘em like they used to,” but the best American films of the last 20 years—my list would include *The Thin Blue Line, Blue Velvet, Basic Instinct, Schindler’s List, Dangerous Liaisons, L.A. Confidential, Titanic,* and *The Truman Show*—belie that opinion. (The viewer who disagrees with my list will have no trouble coming up with his or her own favorites.) Art movies and independent films show continued vitality.

New or newly deregulated technologies are likely to induce further cultural innovations. Cable television is expanding rapidly and breaking down the hegemony of the networks. Eventually viewers will be able to choose from hundreds of channels. Cable already offers the world’s greatest movies; the modern drama of sporting events; large doses of popular music; and high arts such as ballet, theater, and classical music. Viewers can take a class in Shakespeare without leaving their living rooms or use foreign-language channels to learn languages, thereby enlarging their access to the world’s cultural treasures.

Cable is not the only new artistic medium. We can only guess at the development of the Web, Virtual Reality technologies, and Hypertext, both as means for delivering older creations and as new media for future works.

Finally, quasi-artistic activities are blossoming like never before. Fashion, decoration, cuisine, sports, product design, computer graphics, and commercial art—to give just a few examples—continue to flourish and grow. As recently as 20 years ago, Thai food was not available in most American cities; now Thai restaurants dot the suburbs as well. Although those fields are not art in the narrow sense, they bring beauty and drama into our lives. A beautifully decorated home or a luxurious shopping mall delights us and appeals to our aesthetic sense. The question “What is art?” has become less meaningful with the growing diversity of capitalist production.

Markets and Contemporary Culture

It is no accident that contemporary culture has flourished in our wealthy society. Most of the great cultural movements of the past—those of Athens, Rome, early China, the Islamic empire, the Italian Renaissance, and 19th-century Europe—like 20th-century modernism, occurred in societies that were relatively wealthy and commercial for their time. Today, most important works in film, music, literature, painting, and sculpture are sold as commodities. Contemporary art is capitalist art, and the history of art has been a history of the struggle to establish markets.

Creators have the best chance of living from their work in a wealthy, capitalist society. Both artists and audiences have more leisure time and are freed from tiresome physical labor. The larger size of the market supports a greater diversity of products, in both artistic and nonartistic realms. Not surprisingly, the number of individuals who work as full-time creators has risen steadily for centuries.

Capitalism increases the independence of the artist from the immediate demands of the culture-consuming public. The wealth of a market economy funds alternative sources of financial support, such as private foundations, universities, bequests from wealthy relatives, and day jobs. Those sources of fund-

“Most of the cultural movements of the past occurred in societies that were relatively wealthy and commercial.”

ing allow artists to invest in skills, undertake long-term projects, and control their fate. Ironically, artists who care about art, rather than money, have the best chance in a system based on money and commercial incentives.

Wealthy societies give artists the greatest chance of financial independence and thus creative independence. Beethoven wrote, “I am not out to be a musical usurer as you think, who writes only to become rich, by no means! Yet, I love an independent life, and this I cannot have without a small income.” In other cases, income also allows artists to purchase the materials necessary for artistic creation, such as paint and canvas or, in the case of Damien Hirst, sharks and formaldehyde.

We should not disapprove of artists who produce for money. The painters and sculptors of the Italian Renaissance were businessmen who produced for profit and negotiated hard bargains. Mozart wrote, “Believe me, my sole purpose is to make as much money as possible; for after good health it is the best thing to have.” Capitalism allows artists to commercialize their product and sell to large numbers, if they so wish, thereby mobilizing greed in the service of creativity.

Finally, many arts depend on the technological innovations delivered by capitalism. We take paper for granted, but in earlier eras its expense significantly limited the output of both writers and artists. Photography, cinema, and electronic reproduction of music were not possible until relatively recent times. Advances in medicine allow artists to live to older ages, and birth control allows many female creators to manage their careers more effectively.

The economist William J. Baumol has argued that the performing arts suffer from a “cost disease” because they do not enjoy the benefits of technical progress as much as other industries do. Baumol notes that it took 40 minutes of work to produce a Mozart string quartet in 1780, and it still would take 40 minutes today. Baumol, however, underestimates the progressive nature of artistic production. Electronic reproduction, in the forms of recording and radio, has improved the productivity of musicians by allowing them to reach larger audiences. Today’s string quartet travels by airplane rather than by stagecoach or train. A string quartet in 1780 could play Mozart, but today’s string quartet can play Beethoven, Bartok, and the Beatles’ “Eleanor Rigby” as well.

Cultural Pessimism and Its Appeal

Many cultural commentators take explicitly pessimistic views. Neo-Marxists and critics of mass culture, such as the Frankfurt School, believe that markets degrade culture. In their view, the commodification of culture lowers artistic quality and corrupts artists. They identify market culture with the production of low-quality television programs for the masses. The influence of that view, of course, has extended well beyond the radical left. Many neoliberal writers share the concerns of the Frankfurt School, even though their politics are far more moderate. Neil Postman argues that modern technology and media are destroying literacy. Herbert Schiller titled his book *Culture, Inc.: The Corporate Takeover of Public Expression.*

The political correctness movement identifies capitalistic culture with the suppression of minorities and women. Some multiculturalists argue that market exchange leads to a globalized, homogenized culture of the least common denominator. Marshall McLuhan wrote of the “global village,” in which we all consume the same products. In response to those fears, cultural protectionism is practiced around the world, especially in countries such as France and Canada that fear American influence. No American representative was invited to the recent Ottawa conference on cultural protectionism, on the ostensible grounds that America has no cabinet-level culture minister—which is one reason why American culture has proven so formidable.

On the right, many neoconservatives believe that our culture is in a sorry state, as a reflection of more general trends of permissiveness, crime, and loss of respect for tradition. Allan Bloom, Daniel Bell, Irving Kristol, and Robert Bork have all written critiques of culture under capitalism. They argue that capitalistic culture gives insufficient support to traditional values.

Yet Western culture has been on an upswing since at least the year 1000. Both innovation and preservation of the past have blossomed. Why then has cultural pessimism had so much influence?

Cognitive biases induce observers to grant cultural pessimism more plausibility than it deserves. The pessimists focus on the decline of what they already appreciate, and neglect the rise of what is yet to come. It is easy to perceive the loss of what we know and harder to discern new developments and surprises. Even if long-term trends are positive, culture may appear to be deteriorating.

Observers often judge present culture against the very best of past culture, causing the present to appear lacking in contrast. But comparing the best of the past against the entirety of the present is unfair. No matter how vital contemporary culture may be, our favorite novels, movies, and recordings were not all produced just yesterday. Anyone’s favorite epochs, including those of the cultural optimist, will lie at some point in the past. As a result, each field will appear to have declined, given that some superior era lies behind us in each case. Yet we should not conclude that creativity is drying up or slowing down. Rather, the past contains more accumulated achievement than does any single moment in time, such as the present. Furthermore, cultural pessimism will appear increasingly persuasive, precisely because the world continues to produce creative works. With every passing year, the entire past contains an increasing amount of culture, relative to the present.

We also consume contemporary culture less efficiently than we consume the culture of the past. Eighteenth-century music critics did not commonly understand that Haydn and Mozart were categorically superior to Gluck, Cherubini, Cimarosa, and Gretry. Years of debate and listening were needed for the truth to become obvious. Similarly, we cannot yet identify the truly worthy and seminal performers in modern popular music or contemporary art. It takes decades, and sometimes even centuries, to separate the cultural wheat from the chaff.

Most great creators, even those who now strike us as conservative, faced considerable opposition in their day. The French Impressionists were rejected by the artistic mainstream of their day and considered ridiculously unstructured. Mozart’s music was considered incredibly dissonant by many of his contemporaries. One critic charged Anton

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“Cultural pessimism will appear increasingly persuasive. With every passing year, the entire past contains an increasing amount of culture, relative to the present.”

CULTURE *Continued from page 11*

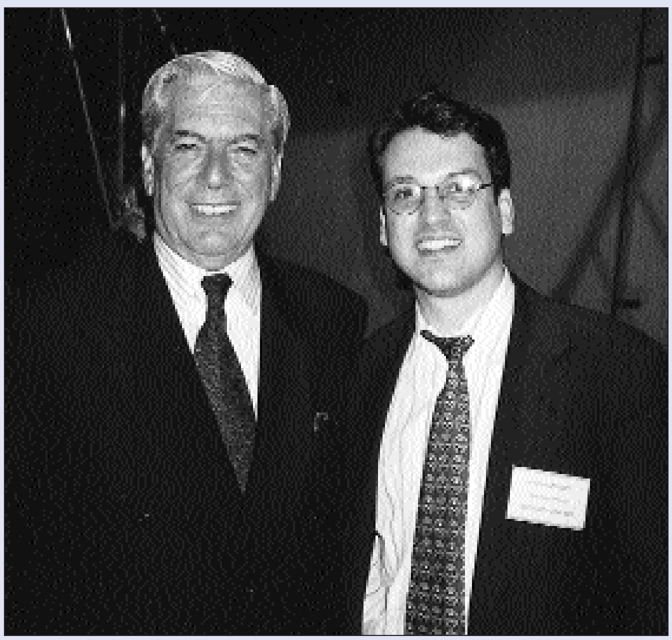
Bruckner with being “the greatest living musical peril, a tonal Antichrist . . . [who] composes nothing but high treason, revolution and murder . . . poisoned with the sulphur of Hell.”

Older audiences often cannot appreciate new and innovative cultural products. Many individuals devote their maximum attention to culture in their youth. Between the ages of 15 and 25, for instance, the mind is receptive to new influences, individuals are searching for their identity, and, more often than not, they are rebelling against their elders. For many individuals, those years are a formative period for cultural taste. Over time, however, marriage, children, and jobs crowd out the opportunity to discover new products. Therefore, in the eyes of many individuals, culture appears to be drying up and declining, which creates yet further support for pessimism.

Some individuals hold pessimistic attitudes to support their elitism. Elitists need to feel that they belong to a privileged minority. Contemporary culture, however, is massive in size, diverse in scope, and widely disseminated. Elitists have a hard time sustaining their self-images if they admit that our culture is wonderful and vibrant. Celebrating the dynamism of modern creations ascribes aesthetic virtues and insights to a very large class of artistic producers and consumers—contra elitism.

The diversity of modern culture implies that much trash will be produced, providing fodder for pessimism and elitism. We should keep these low-quality outputs in perspective and view them as a luxury that only diverse and wealthy societies can afford.

Some kinds of cultural pessimism spring from lack of imagination. Cultural pessimism and “resource pessimism” share common roots in this regard. Resource pessimism is the view, effectively criticized by Julian Simon, that the world will run out of resources in the near future. Resource pessimists focus on one kind of resource, such as oil, and see only so many years’ supply remaining. They fail to see that the world could procure energy by different means in the future. Many cultural pessimists hold analogous attitudes. The West has developed certain great art forms, such as epic poetry, classical drama, and the symphony. Those forms have been “exhausted,” at least in terms of the taste of the pessimist, implying cultural decline. Yet we should not look for cultural innovation to recur in the same areas over time; if anything, we should expect the exact opposite. There is no 20th-century Homer or Aeschylus, but we do have Alfred Hitchcock, Duke Ellington, and Frank Lloyd Wright.



Novelist Mario Vargas Llosa and Cato’s Ian Vásquez were among the speakers at a conference celebrating the 10th anniversary of the Fundacion Libertad in Rosario, Argentina, on June 4–5.

Cultural pessimism has been around as long as culture. Pessimistic attacks have been leveled for centuries, although the target has changed frequently. Many moralists and philosophers, including Plato, criticized theater and poetry for their corrupting influence. Books became a target after the onset of publishing. Eighteenth-century pessimists accused novels of preventing readers from thinking, preaching disobedience to parents (note the contradictory charges), undermining women’s sense of subservience, breaking down class distinctions, and making readers sick. Libraries, especially privately run circulating libraries, were another target. Edward Mangin remarked in 1808, “There is scarcely a street of the metropolis, or a village in the country, in which a circulating library may not be found: nor is there a corner of the empire, where the English language is understood, that has not suffered from the effects of this institution.”

In the 18th and 19th centuries the targets included epistolary romances, newspapers, opera, the music hall, photography, and instrumental virtuosi, such as Liszt and Paganini. The 20th century brought the scapegoats of radio, movies, modern art, professional sports, the automobile, television, rhythm and blues, rock ‘n’ roll, comic books, MTV music videos, and rap music. Each new medium or genre has been accused of corrupting youth and promoting excess sensuality, political subversion, and moral relativism.

My version of cultural optimism offers a contrasting perspective. Capitalist art consists fundamentally of bringing the consumer and producer together. Therein lies its exhilarating, challenging, and poetic nature. Marketplace art is about the meeting of minds and hearts. We should not deplore our culture, as do the pessimists. Rather, we should recognize its fundamentally capitalist nature, which implies creativity, entertainment, innovation, and above all diversity. ■

Free trade promotes human rights

Social Security Is Especially Bad for Women

"Virtually all women would be better off (many *significantly*) under a system of individually owned, privately invested accounts than under the current Social Security system," according to a new Cato Institute study of the impact of several approaches to Social Security privatization on women. In "Benefits of Social Security Privatization for Women" (Social Security Paper no. 12), Ekaterina Shirley and Peter Spiegler, graduates of the John F. Kennedy School of Government at Harvard University, compared benefits for women under Social Security, under a partially privatized "double-decker" or two-tiered system, and under a fully privatized system with provisions for earnings sharing by married couples. The authors found that for each of eight types of women in today's workforce, whether they had full or interrupted earnings histories, "the FPES [full privatization with earnings sharing] plan with contribution rates of 10 percent or 7 percent delivers the highest amount of retirement benefits on a present value basis." In "Greater Financial Security for Women with Personal Retirement Accounts" (Briefing Paper no. 38), a user-friendly paper based on the Shirley-Spiegler study, Darcy Ann Olsen writes that women suffer from the disparate impact of the Social Security system's benefit rules and would be considerably better off under a system of privately owned retirement accounts. The system's current benefit rules have a significant impact, especially the "dual-entitlement" rule, which frequently results in a working woman's receiving benefits based only on her husband's earnings. Such a woman "receives no credit or benefits based on the payroll taxes she has paid." Another frequent result of the rule is that "a couple with two breadwinners may get fewer benefits than a couple with one breadwinner and identical lifetime earnings."

✦International Criminal Court Would Threaten Rights

In "Reasonable Doubt: The Case against the Proposed International Criminal Court" (Policy Analysis no. 311), Cato foreign policy analyst Gary T. Dempsey notes that "it appears that many of the legal safeguards Americans enjoy under the Bill of Rights would be unavailable if Americans were brought before the International Criminal Court" proposed by the United Nations. Dempsey says that the draft ICC treaty does not recognize such fundamental protections as the Fifth Amendment's promise of due process or protection against self-incrimination, or the Sixth Amendment's right to trial by jury. He also points out that the existing UN war crimes tribunal on Yugoslavia does not recognize any right against self-incrimination or the right to confront one's accusers.

Darcy Olsen discusses the impact of Social Security privatization on women at a Capitol Hill forum.

✦Free Trade and Human Rights

"The best policy for promoting freedom and human rights remains economic and moral engagement," the Rev. Robert Sirico writes in a new Trade Briefing Paper from the Cato Institute's Center for Trade Policy Studies. With Congress considering whether to continue China's most favored nation (MFN) trade status, Sirico reminds Christian conservatives that "trading with a country is not the same thing as placing a moral imprimatur on the government of that country." In "Free Trade and Human Rights: The Moral Case for Engagement" (Trade Briefing Paper no. 2), Sirico, a Catholic priest who heads the Acton Institute for the Study of Religion and Liberty, argues that the situation in China is a "far more complex reality" than opponents of MFN status realize. "Members of the American business community who frequently deal with China—among them Christians who devote their lives to serving others through economic endeavors—are dismayed at what is being written and said by some conservative Christians involved in the debate. An economic miracle is taking place—a historic chance that the Chinese people will be made permanently free to pursue their individual dreams."

✦Fans of "Japan, Inc." Turn Out to Have Been Dead Wrong

Purveyors of the "Japan, Inc." economic model, who "argued in the late 1980s and early 1990s that the United States could not compete with Japan's unique form of state-directed insider capitalism . . . were dead wrong, both in their assessment of the Japanese 'threat' and in their recommendations for U.S. policy." Their prophecies of doom, and the realities that proved them wrong, are described in detail in a new Cato Institute study. In "Revisiting the 'Revisionists': The Rise and Fall of the Japanese Model" (Trade Policy Analysis no. 3), Brink Lindsey and Aaron Lukas of the Cato Institute's Center for Trade Policy Studies examine the fawning praise, dire predictions, and policy prescriptions of such well-known analysts of Japan, Inc. as Chalmers Johnson, Clyde Prestowitz, James Fallows, and Karel van Wolferen. The study concludes that the failure of the revisionists to see the flaws in the Japanese model is easily understood. "All their errors trace back to a common source: an inability to understand and appreciate the power of free markets."

✦No New Telecom Taxes

"Universal service regulation poses a threat to the stated goals of the supporters of universal service, namely the development of an advanced communications infrastructure for the United States," writes Lawrence Gasman in "The New Telecommunications Entitlement and Taxes" (Policy Analysis no. 310). Gasman, a senior fellow at the Cato Institute, notes that legislators debating universal service provisions of the Telecommunications Act of 1996 "barely addressed whether there is a real need for any universal service subsidies" for schools and rural areas. There is not. In the study, Gasman examines the social, economic, and political justifications for the program and

STUDIES *Continued from page 13*

concludes that "universal service subsidies are not justified by economics, by any reasonable principle of justice, or by common sense."

✦Cuts in Theater Missile Defense Are Needed
"Acquiring all the systems in the current theater missile defense (TMD) program is unnecessary," writes Charles V. Peña in "Theater Missile Defense: A Limited Capability Is Needed" (Policy Analysis no. 309). "The United States should purchase only those systems that support a national security policy of sending U.S. expeditionary forces to foreign theaters only when vital U.S. national security interests are at stake." Doing so would reduce the cost of the program from an estimated $47.3 billion to $17.4 billion, the study finds. Peña, an independent defense policy consultant, argues that "it is no longer reasonable or rational for the United States to maintain forward-deployed forces throughout the world and provide protection for friends and allies." He concludes, "Our military forces should be designed to support a more selective and rigorous national security policy. And our theater ballistic missile defense choices must provide real military capability and be consistent with our policies and forces."

✦The Myth of the 2.2 Percent Solution
Partisans of the current Social Security system sometimes argue that raising the payroll tax by a "mere" 2.2 percent would suffice to solve the program's financial problems. But a new study titled "The Myth of the 2.2 Percent Solution" (Social Security Paper no. 11) concludes that the "2.2 percent solution" not only would exact a huge cost—$75 billion in higher taxes in the first year alone—but would still require an additional tax hike every year to keep the trust funds in balance. In the study, economists Neil Howe and Richard Jackson point out that the proposal is designed to deal with one particular measure used to determine Social Security's fiscal health: actuarial balance. Computations of actuarial balance count surpluses in the program's trust funds as genuine savings, "but the trust funds contain nothing but a stack of Treasury IOUs that will require additional taxes or borrowing from the public to redeem. The more accurate measure of Social Security's health is the program's operating balance—that is, its earmarked annual tax revenues minus its annual outlays," according to Howe and Jackson. That balance will go in the red in 2013, just 15 years from now; in 2031, the annual deficit will be roughly $734 billion.

✦Free Trade Is a Right and a Blessing
"People should have the right to exchange the sweat of their brows, the products of their hand and their minds with whomever they wish" writes *Washington Post* columnist James K. Glassman. In "The Blessings of Free Trade (Trade Briefing Paper no. 1), Glassman argues that free trade not only is our right as human beings but also is good for our economy. We should not be afraid of a trade deficit, Glassman argues, because it means that we are importing more wealth than we are exporting. Glassman concludes that "it would be smart for the United States to abandon its current negotiating posture, which is that we will take down our trade barriers if you will take down yours." ■

News Notes

Dorn Wins Faculty Award

James A. Dorn, Cato's vice president for academic affairs and editor of the *Cato Journal,* has received the Regents' Faculty Award for Excellence in Research/Scholarship from the Board of Regents of the University System of Maryland. This is the highest honor bestowed on faculty members by the Board of Regents. Dorn, who joined Cato in 1982, is a professor of economics at Towson University outside Baltimore. The award notes that he is "nationally and internationally recognized for his contributions" to scholarship in economic development and monetary policy and for his efforts to encourage debate on such topics in the United States, China, and the former Soviet Union. Dorn is editor of the new Cato book, *China in the New Millennium: Market Reforms and Social Development.*

✦ Michael Tanner, director of Cato's Project on Social Security Privatization, has had a busy travel schedule lately, much of it designed by the White House. To increase public understanding of Social Security's problems and the benefits of privatization, Tanner has visited each of the cities where President Clinton has held "national town meetings" on Social Security reform. Before the first event, in Kansas City, Tanner visited the city and spoke to the editorial boards of the local newspapers and to a town hall meeting sponsored by Sen. Sam Brownback (R-Kans.). José Piñera, co-chairman of the project, also visited Kansas to address a large group of state legislators and students at a Kansas City college. Tanner went back to Kansas City for the town meeting itself and appeared on a number of television shows.

Gov. Gary Johnson at Cato's Albuquerque seminar.

From Galileo and Scopes to cloning and the EPA

You, Too, Can Silence Annoying Scientists

So you want to stop a scientist from exposing the truth, but you don't know how. Well, all that is a thing of the past. In the new Cato book *Silencing Science* by Steven J. Milloy and Michael Gough, you can get instructions on how to keep any pesky scientist from doing, publishing, or spreading the results of valuable research. After all, facts aren't important when a cause is at stake.

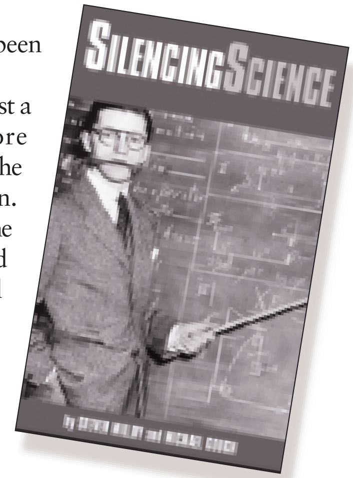
The book reads like a handbook for keeping scientists from plying their trade. Underneath the tongue-in-cheek style is a caustic look at how government, special-interest groups, and corporations have manipulated science for their own ends, chipped away at its credibility, and created an atmosphere in which science can be silenced at virtually the push of a button.

Gough says the book stemmed from a conversation with Milloy, who wrote the 1995 book *Science without Sense: The Risky Business of Public Health Research*. "It started out with the silicone breast implant business. We started from there, but we thought it might be characteristic of how special interests use science." Historical incidents such as the prosecutions of Galileo and John Scopes foreshadowed today's subtler attempts to silence and distort science.

Silencing Science opens by exploring banned research. As a reaction to Scottish scientists' cloning of Dolly the sheep in 1997, the Food and Drug Administration declared that human cloning research would require FDA approval, and President Clinton asked Congress to pass a ban on human cloning, despite its possible benefits in treating cancer, burn victims, reproductive disorders, and other conditions. As the authors point out, banning research "sounds draconian—but it's also effective."

But one of the best tools the government has for stopping science is regulating it out of existence. The Environmental Protection Agency is crucial on that front. In a proposed 1994 regulation, the EPA planned to ban "'novel pesticidal substances introduced into plants' along with the 'genetic material necessary to produce them.'" In other words, the regulation covered plants that had been crossbred to enhance their natural pesticides so they could withstand natural predators and diseases and thus produce high-yield crops effectively and cheaply. Congress had given the EPA authority to regulate pesticides. It hadn't given the agency authority to regulate genes or the manipulation of genes. The EPA, in its zealotry to regulate, classified naturally occurring genes as sources of pesticides, making plants analogous to pesticide factories.

Another trick for making science work for you—and only you—is to edit it the *right* way. The authors tell of a UN Intergovernmental Panel on Climate Change report on global warming in which every reference to uncertainty or doubt about the credibility of data linking human activity and global warming was edited out of the executive summary *after* it had been approved.



Those are just a few of the more crafty methods the authors mention. Much more of the book is devoted to traditional ways of stopping information, such as harassment, intimidation, and litigation.

Gough says the problems identified in the book are ongoing. He says there are three major areas of contention between special interests, including the government, and science: "The first is cloning and human reproductive technology. The second thing is, of course, the global warming controversy. The third is the government's use of science. The recent decision by a federal judge to throw out the EPA's assessment of the health risks of second-hand smoke has to be a slap in the face of the EPA, and it underlines the importance of scientists and citizens who value science and stand up for it. I think that's going to force the EPA to start doing science instead of implementing policy first and doing the science afterward. That's all for the good."

Silencing Science can be purchased for $8.00 by calling 1-800-767-1241. ■

He also went to Providence, Rhode Island, to talk with editorial boards before the second town meeting. Cato's most elaborate effort was in Albuquerque, where the town meeting focused on private investment. Tanner visited the city two weeks before the president to talk to editorial boards and appear on several local broadcasts, then went back a week later to anchor a Cato City Seminar at which Cato president Ed Crane, former representative Tim Penny, and New Mexico governor Gary Johnson also spoke. The event drew over 100 participants and widespread media coverage. With a large ad in the Albuquerque newspapers, Cato made sure that New Mexicans were aware of the case for full privatization before the president and the national media arrived on July 27.

♦ Cato Sponsor John Gilmore, cofounder of the Electronic Frontier Foundation, led an EFF team that cracked the standard data-scrambling code in less than 3 days, shattering the previous record of 39 days. That success demonstrates that the government's preferred 56-bit key is not sufficient to protect encrypted data from prying eyes. "EFF has proved what has been argued by scientists for 20 years, that [Data Encryption Standard] can be cracked quickly and inexpensively," Gilmore said. The victory strengthens the argument that the government should not limit the development and use of stronger encryption.

♦ Development economist P. T. Bauer's lead article in the new issue of the *Cato Journal* (vol. 18, no. 1) is a tribute to the late Indian economist B. R. Shenoy, whom Bauer describes as "a hero and a saint" for his persistent critiques of comprehensive economic planning at a time when most economists embraced such policies. Other articles on development issues include Pascal Wick and Jane Shaw on the World Bank's failures in Ivory Coast, Penelope Brook Cowen and Tyler Cowen on privatizing water supplies, and Mwangi S. Kimenyi on ethnic problems in Africa. William A. Niskanen examines the impact of the Perot voters, and editor James A. Dorn contrasts market socialism with "market Taoism" in China. ■

"To Be Governed..."

✦Sit down, shut up, get out of that car, give us your money

Vice President Gore announced yesterday that the federal government was going to start using "plain language" in its communications with the American people.

—*Washington Post*, June 2, 1998

✦Laissez-nous faire

Gov. James S. Gilmore III appointed his economic brain trust today, choosing . . . 155 business people, state officials and community leaders to help him devise a strategy to maintain Virginia's strong economy.

—*Washington Post*, June 11, 1998

✦I came here to defend the status quo

The House voted 219 to 209 yesterday to abolish the current tax code by Dec. 31, 2002. . . .

"You just don't play Russian roulette with something like the tax code," said Rep. Amo Houghton (N.Y.), a leading moderate Republican who voted against the measure. "I didn't come down here just to sort of go along with the crowd."

—*Washington Post*, June 18, 1998

✦Let's risk it

Congress . . . might require the millions of people who use [Women, Infants, and Children program] grocery vouchers to buy only lower-priced, house-brand cereals. . . .

The National Association of WIC Directors . . . [is] concerned that people will drop out of the program . . . if they don't think the food vouchers are meeting their needs or tastes. . . .

[Massachusetts WIC director Mary] Kassler conducted a survey in 1995 and found food choices were important to Massachusetts WIC participants. They wanted name brands and probably would leave the program if the vouchers restricted their shopping too much.

—*Boston Globe*, June 11, 1998

✦A good laugh at our expense

President Clinton lauded Congress as he signed the nation's new $203 billion highway bill. . . .

Clinton, who received a sermon-like introduction from Transportation Secretary Rodney Slater, joked to Senate Majority Leader Trent Lott, R-Miss., and the other members of Congress in attendance that he thought the secretary was going to conclude by passing a collection plate.

"Then I realized that you had already given him all the money," the president said, prompting an eruption of laughter.

—Associated Press, June 10, 1998

Just before traveling to Beijing on Feb. 14, [UN ambassador Bill] Richardson paid a call on his U.N. counterpart, Qin Huasun. A politician with a mischievous streak, Richardson put on a serious face and, according to one witness, told Qin: "I want to come to China to focus on one subject." He paused. "Human rights."

As Qin stared back in disbelief, Richardson burst into a grin. The Chinese ambassador threw back his head and laughed.

—*Washington Post*, June 22, 1998

✦Act like parents, vote like the Constitution

Prospects for passage of landmark anti-tobacco legislation this year evaporated Wednesday. . . .

"If more members of the Senate would vote like parents rather than politicians, we could solve this problem and go on to other business of the country," a clench-jawed, flushed President Clinton said.

—*USA Today*, June 18, 1998

✦Socialism evolves

"We can no longer speak in terms of owning the means of production or of a socialist system that was opposed to the capitalist system," [French prime minister Lionel Jospin] told reporters . . . on his visit to Washington yesterday.

Socialism means "reconciling [free-market] efficiency and social justice in a political framework that is democratic," Mr. Jospin said. "Liberty and equality must go together."

—*Washington Times*, June 20, 1998

✦Famous last words

Isn't there a way to capture the stock market's higher yields without undermining the existing program? . . . The government could gradually invest a portion of the trust fund in passive stock funds. . . .

It would be easy to prohibit manipulation of the market for political reasons. All you would have to do is assign responsibility for the investments to a quasi-independent body, then carefully limit how it can make investment decisions.

—Jonathan Cohn in the *New Republic*, July 13, 1998

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